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Moore

Research Paper

The Corporate Tax Conundrum

Corporate Tax in America is a horrible system that stifles the innovative forces (corporations) that are trying to create the next big thing. Corporate Tax is placed upon companies charging them up to 5,150,000 + 38% over any amount made over fifteen million dollars in revenue. The problem is this isn’t fair to these companies and their owners who have built something from nothing. The corporate tax in America needs to be taken out because, taking corporations hard earned money stifles innovation, no company wants to reinvest when there is little profit made (killing job growth), there are better tax systems such as Consumption Tax, which could easily replace the current system and still generate plenty of revenue for the U.S. government.

The corporate tax in America stifles innovation. The fact is as a corporations earn money they will reinvest and grow their company’s. One aspect of growing a company comes from new product development. “Studies show that companies that invest in research and development (R&D) grow and prosper in increasingly competitive markets…” (Cobbs, 14) While Cobbs is referring to a tax credit for R&D the same ideology can be applied to the reduction of the corporate tax rate to help stimulate growth. These new products are what industries forward generating new revenue streams to grow the company even further to again reinvest in itself.

Once all this revenue is earned the corporate tax is taken. Taking away millions of dollars of money that could be used to generate new products. This hurts the government and hurts the economy.

The general belief by the opposition is that corporations are greedy and only in it to make a profit. This is a very ignorant assumption. No CEO would try and keep millions for himself when he can grow his company and make a larger profit.

A Corporation that is getting taxed heavily is going to stay stagnant, not wanting to spend any more than is necessary to get by. The government suffers as the lack of growing business keeps the tax income from growing to support itself as new services are implemented. This puts the government into more debt. Businesses that aren’t innovating and growing aren’t helping stimulate the economy.

The more a company is taxed, the more likely it will be to not grow its company and increase its employee base. If the federal government wants to take away 38% of what a company makes leaving 62% of the revenue left. Take out the current employee base removing 20-30%, then factoring in overhead costs and supplies (10%), then there isn’t a whole lot left for a business to reinvest to grow its profits for the next year. With that knowledge why would any business want to spend money on new employee’s when the company is barely making a decent profit? The thought is ridiculous.

When decent profits aren’t being made due to taxes businesses move to other countries. Taking with them jobs and all that potential tax revenue that could have been earned. This is another downfall of the corporate tax that hurts the economy and the United States government doesn’t get the tax revenue that it could because some other country is competitively setting their corporate tax to compete with all these first world countries with better economies. China is one of the best examples of this. With their low corporate tax rates, they are able to steal business away from countries who have high rates like the United States.

There are solutions to the problem the corporate tax system brings. One easy option would be to simply lower taxes to a more reasonable level. Another option is to remove the tax all together and move to a consumption based tax also known as fair tax on the personal tax level.

The idea of lowering the corporate tax is very enticing. The fact that it is the simplest solution to the overall problem. Lowering the corporate tax would increase business growth as well as attract international businesses. According to Jensen and Lindstädt, governments lower corporate taxes based on what they have learned from other countries. (303) If there is one thing we should learn it’s that higher corporate taxes harm business and more business in America would bring more tax revenue in.

The issue with this is that opponents would attempt to kill this in congress. The current congress (known by some as a lame congress) would argue this into the ground. It has been proven over and over that tax and budgeting are a weak point for bipartisanship. Barrack Obama has even pushed for increased taxes on corporations. As of now America has one of the highest corporate taxes in the whole world. Looking at the economy there is definitely something wrong. While lowing the corporate tax is a viable solution, this is not the best option available.

The Consumption tax would be the idea way to go. It is a tax based on what is spent and not what is made. Essentially buying the ingredients for said product would be taxed. However there would be no corporate tax. This tax is also referred to as the fair tax. Most of the time this tax is associated with personal income tax. However applied to business this would generate a ton of revenue for the government and still be less on the business.

If the corporation wants to buy a private jet then they can go right ahead. Assuming the consumption tax is 10% then that 20 million dollar jet just earned the federal government 2 million dollars. It’s fair because the corporation wanted that jet and they purchased it. The federal government didn’t have to take any money from them. It was a willing transaction that the government profited on. The same concept can be applied to purchased goods and materials required to keep the business operating.

Getting rid of the tax system is the ideal option, but also the hardest to implement. The restructuring of the whole tax system could be potentially devastating if done poorly. However if done correctly this restructure could be the best change in business taxes in American history effectively stimulating job growth, economic growth, and government growth in a reasonable way. The amount of opposition from both the left and the right would make this a fairly difficult battle to win.

Opponents from the left side of the political spectrum believe that the corporate tax is “fair” and that businesses should pay their fair share. They feel that these corporations should pay more so that the federal government can do more. The issue with this ideology is the fact that it is essentially taking away from the hard work invested by business owners and even employees. Opponents feel that the consumption tax has the potential to be regressive. (Athreya and Reilly, 98) The opponents to lowering the tax or moving to a consumption based tax want to redistribute the wealth of the nation from these corporations to the lower classes so that they can live high and mighty. Again this logic is flawed because the mentality of earning what you get has always been distilled in our values and yet these opponents want to take away from these corporations.

The opponents on the right are a little bit different. They are not necessarily finding flaws in the consumption tax so much as they just don’t want to have to deal with the battle with the left. The current congress is always in a dead lock hindering the changes needed. The problem is the right wing does not want to give, bipartisanship is nonexistent.

Corporations are in fact people. Except not in the way that the left tried to make people think when Mitt Romney made this statement. Corporations are a collective of people. This collective of people act as one allowing the corporation to make important decisions. So by taking away from the corporation you take away from all the hard working employee’s as well as the investors expecting a profit. One should always wonder why some of these opponents find it bad to earn a profit in business.

The corporate tax problem cannot be fixed overnight. Voicing the problems that exist within our current system is the first step in getting the attention needed to get real change. There are many opponents to this change however at the current rate, businesses are not growing and tax revenue is shrinking, and government expenditure is growing. Businesses are leaving the country to find countries with lower tax rates, loosing America jobs. Switching to the consumption tax would generate more revenue, as well as be fair and reasonable tax for the corporations. Nobody likes having money taken from them. However, taxing money that is used to purchase goods and services is one way to generate revenue without explicitly taking money from these businesses. Typically if businesses are doing well the rest of the country is doing well and if everyone else is doing well then the government is getting the necessary taxes it needs to keep its programs and services running efficiently.

Gooch,

This is a very well written essay with only a few simple mistakes…but my brain hurts.

Taylor Huntington

Work Cited

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